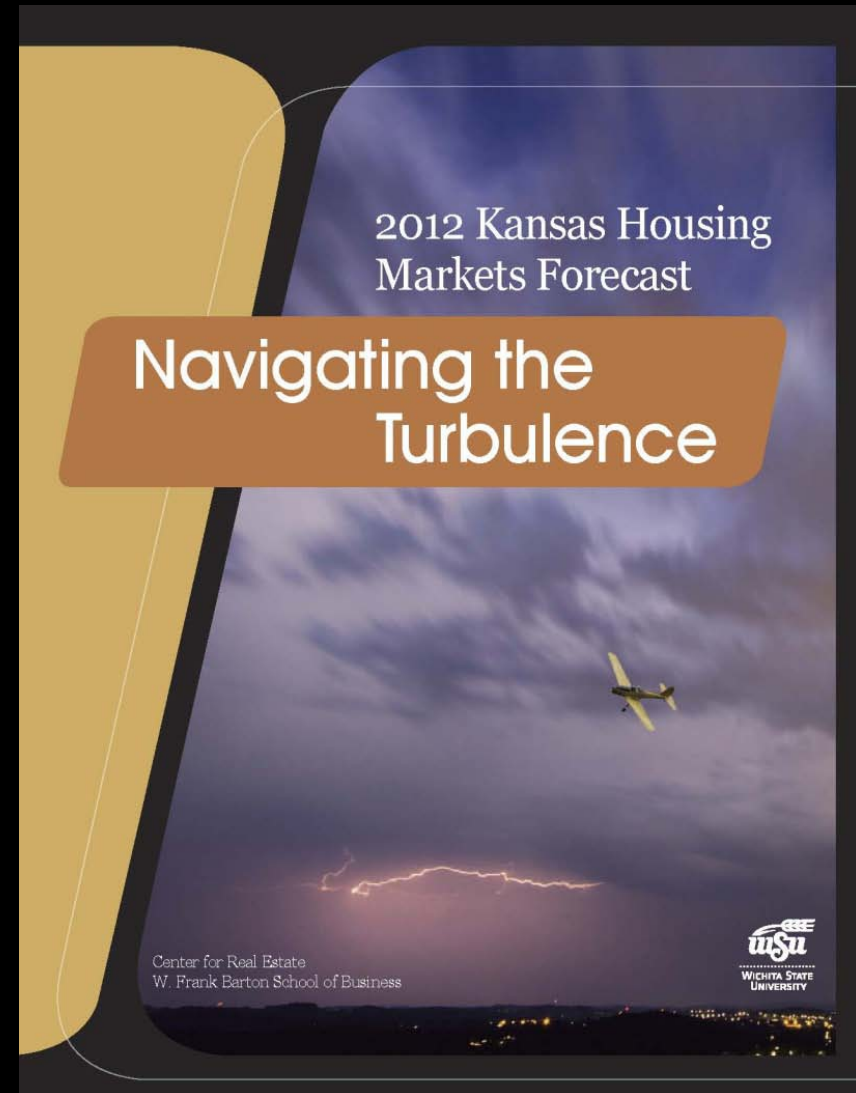


2012 Kansas City Housing Market Forecast

October 17, 2011

Dr. Stanley D. Longhofer
WSU Center for Real Estate



WICHITA STATE
UNIVERSITY

W. FRANK BARTON
SCHOOL OF BUSINESS



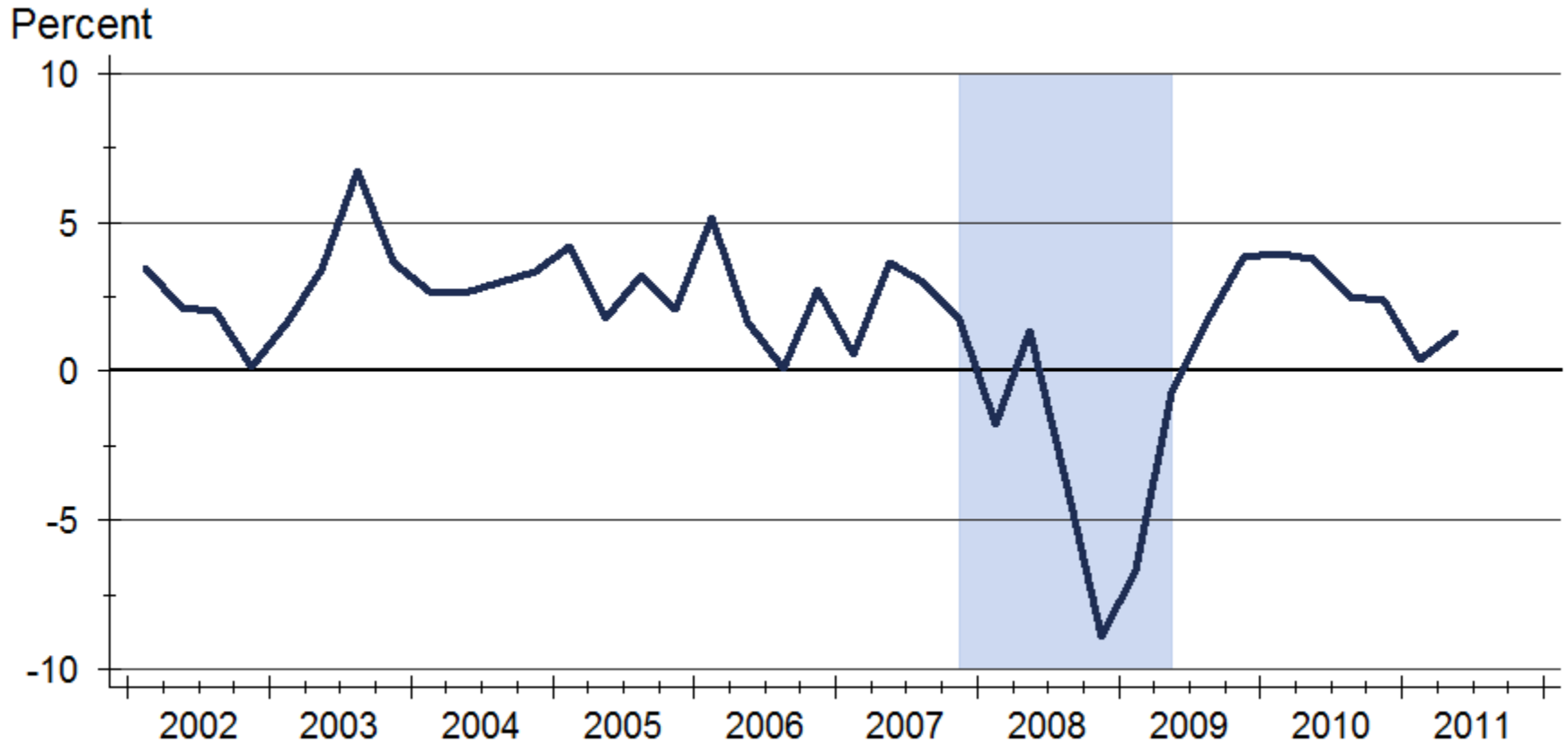
Special thanks to...



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*for underwriting the cost of producing the
2012 Kansas Housing Markets Forecast*

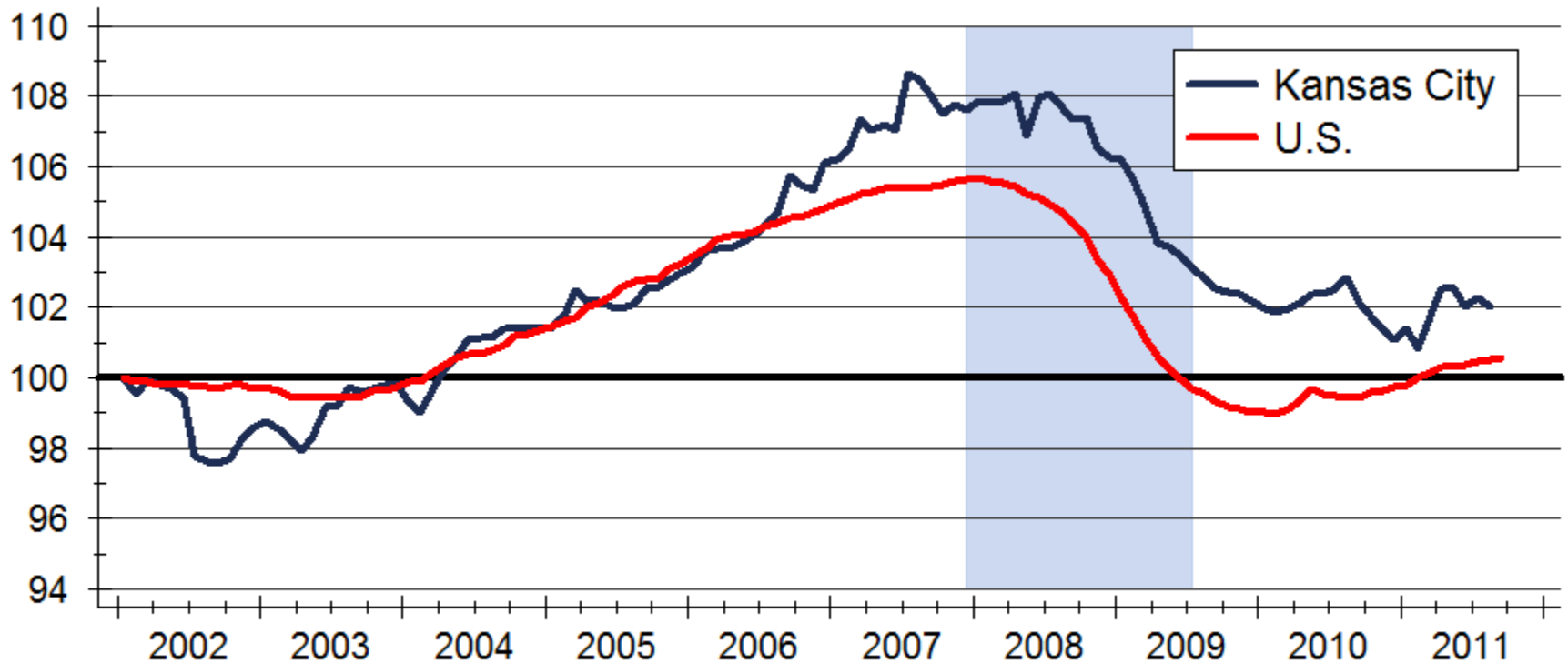
Real GDP Growth



Source: Bureau of Economic Analysis

Non-farm Employment

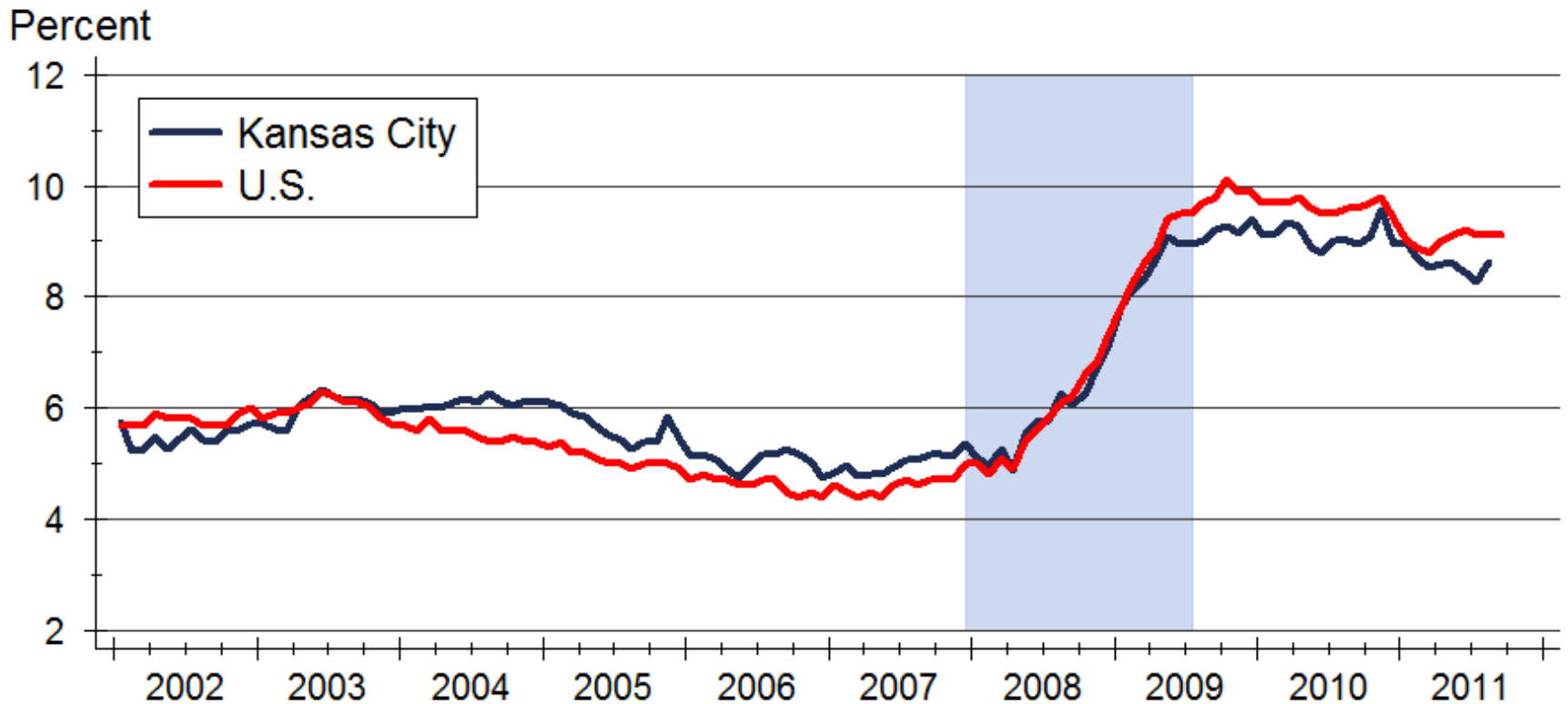
Index: 2002m1 = 100



Source: U.S. Bureau of Labor Statistics

Index created from seasonally adjusted data

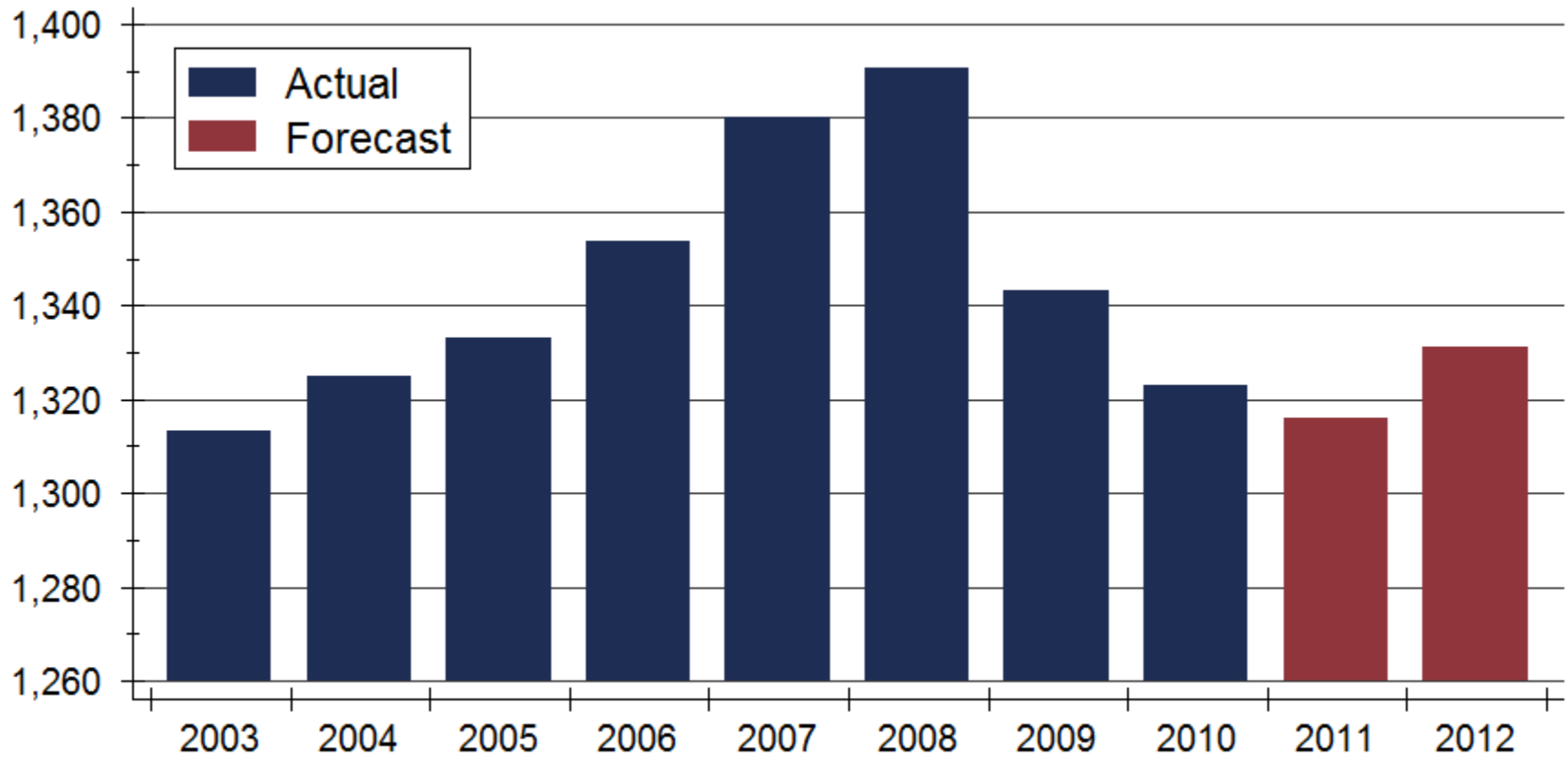
Unemployment Rate



Source: U.S. Bureau of Labor Statistics

Data are seasonally adjusted

Total Kansas Employment

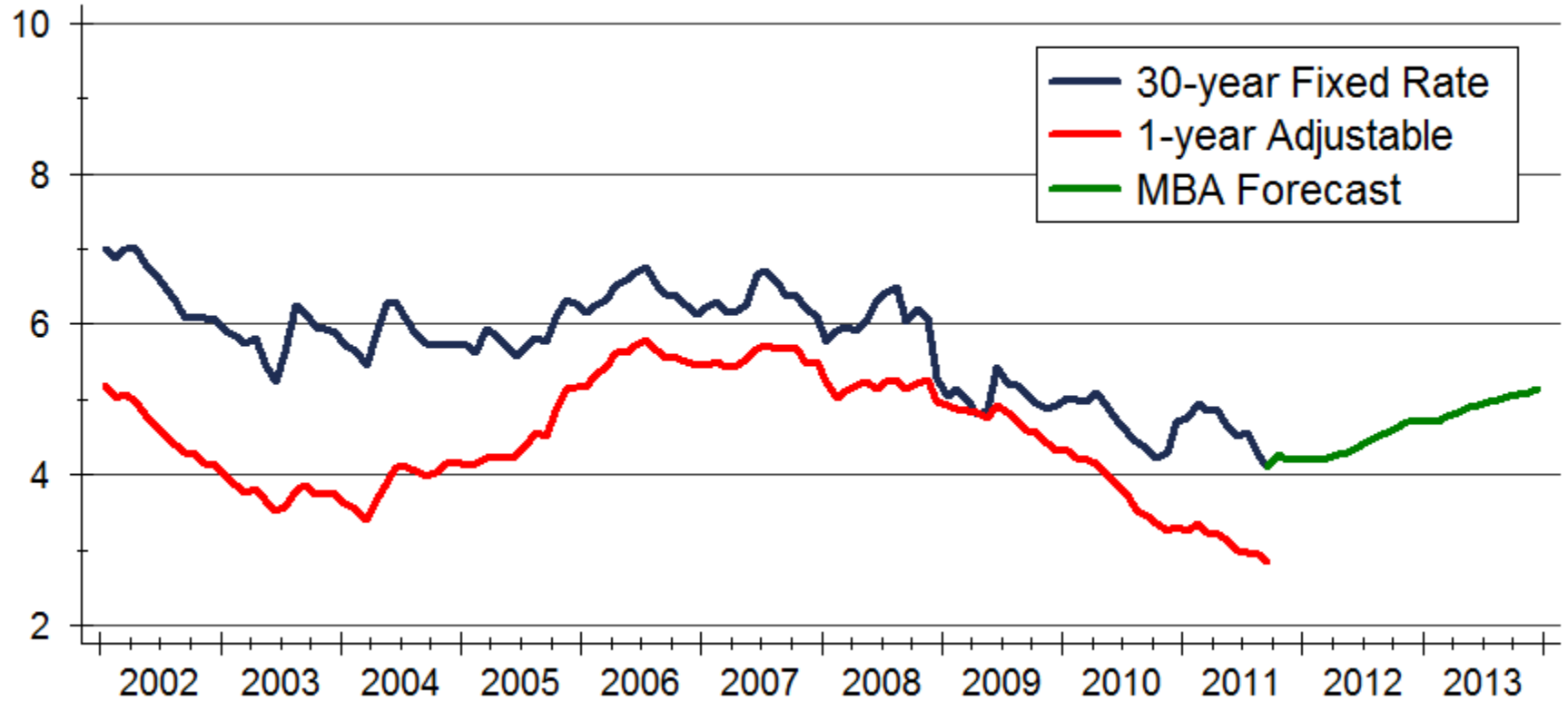


Sources: Kansas Department of Labor and WSU CEDBR

Consumer Inflation

Mortgage Rates

Percent



Sources: Freddie Mac; Mortgage Bankers Association

“Normal” Mortgage Rates?

Nominal mortgage rates include the following factors

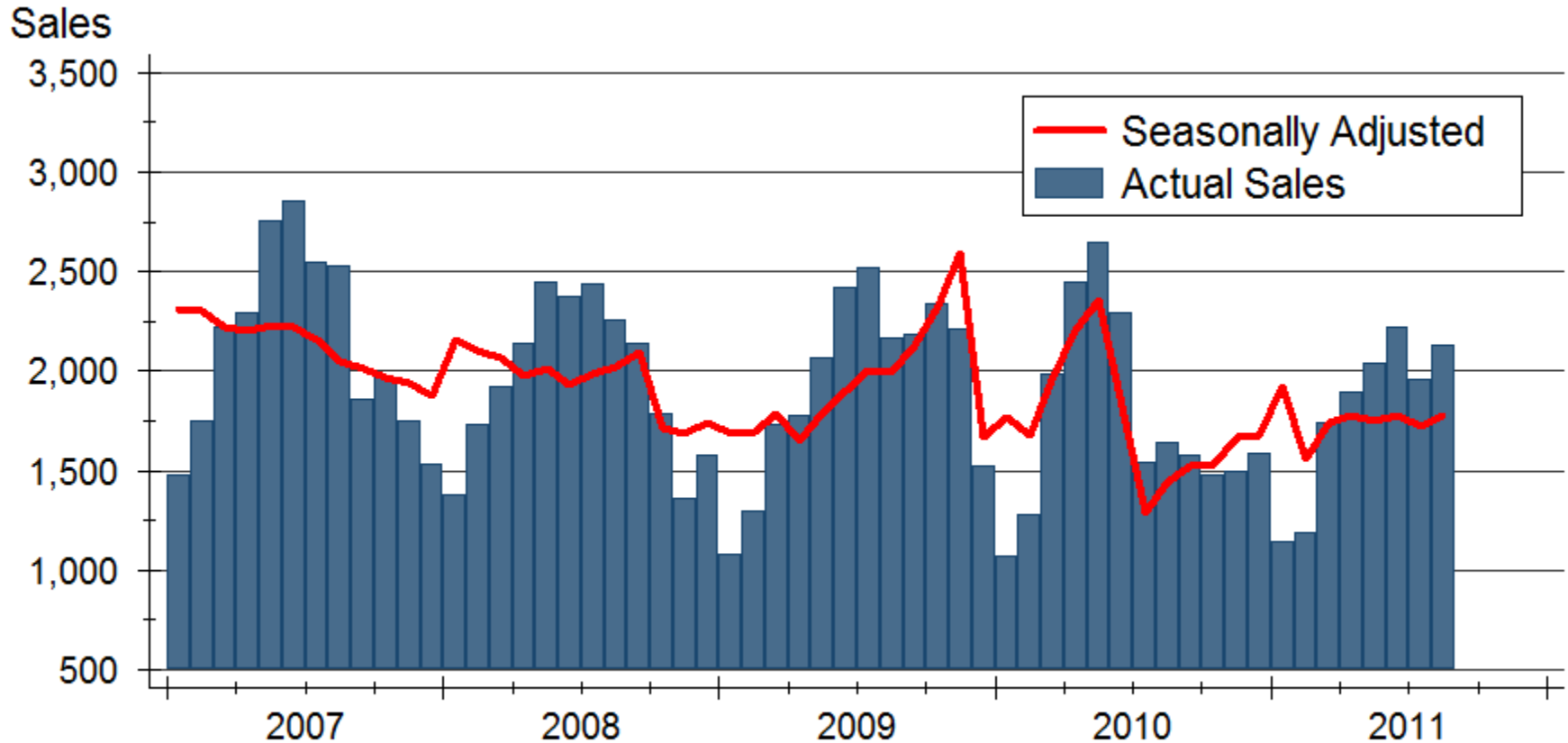
Real, risk-free return on money over time $\approx 2.5\% - 3.5\%$

Premium for expected inflation $\approx 1\% - 2\%$

Premium for risk $\approx 2\%$

Implies “normal” mortgage rates should be in the 5.5% to 7.5% range.

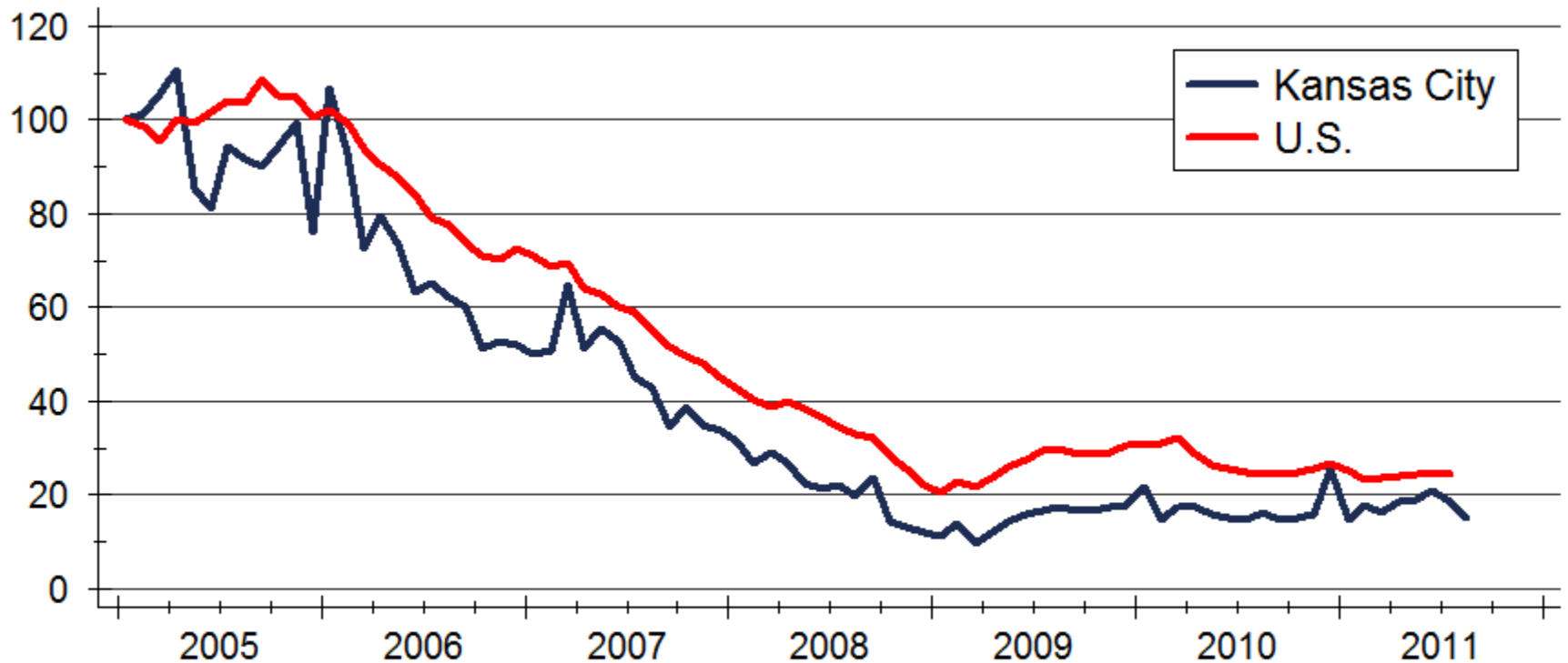
Kansas City Existing Home Sales



Source: Kansas City Regional Association of REALTORS®

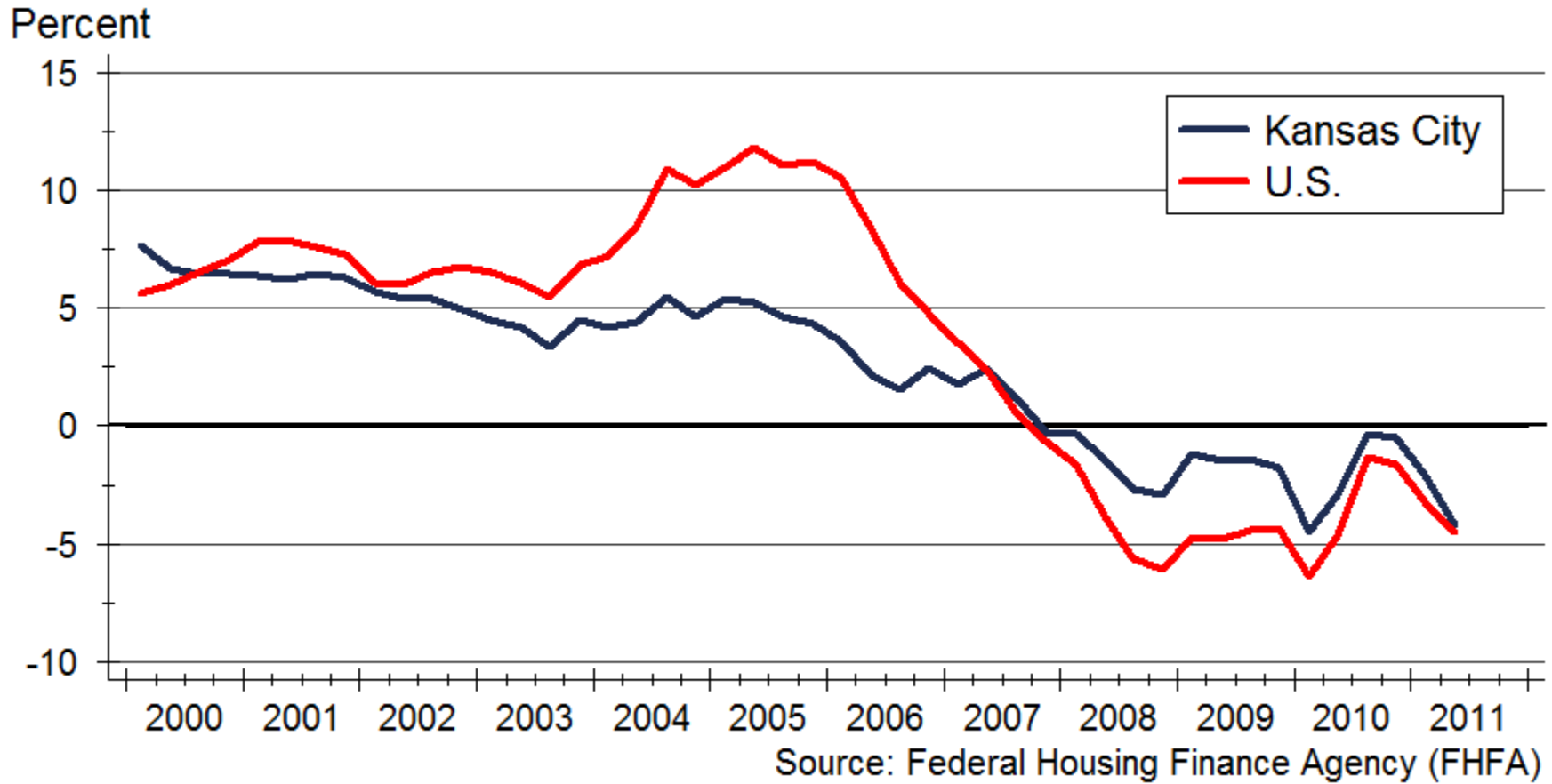
New Home Construction

Index: 2005m1 = 100



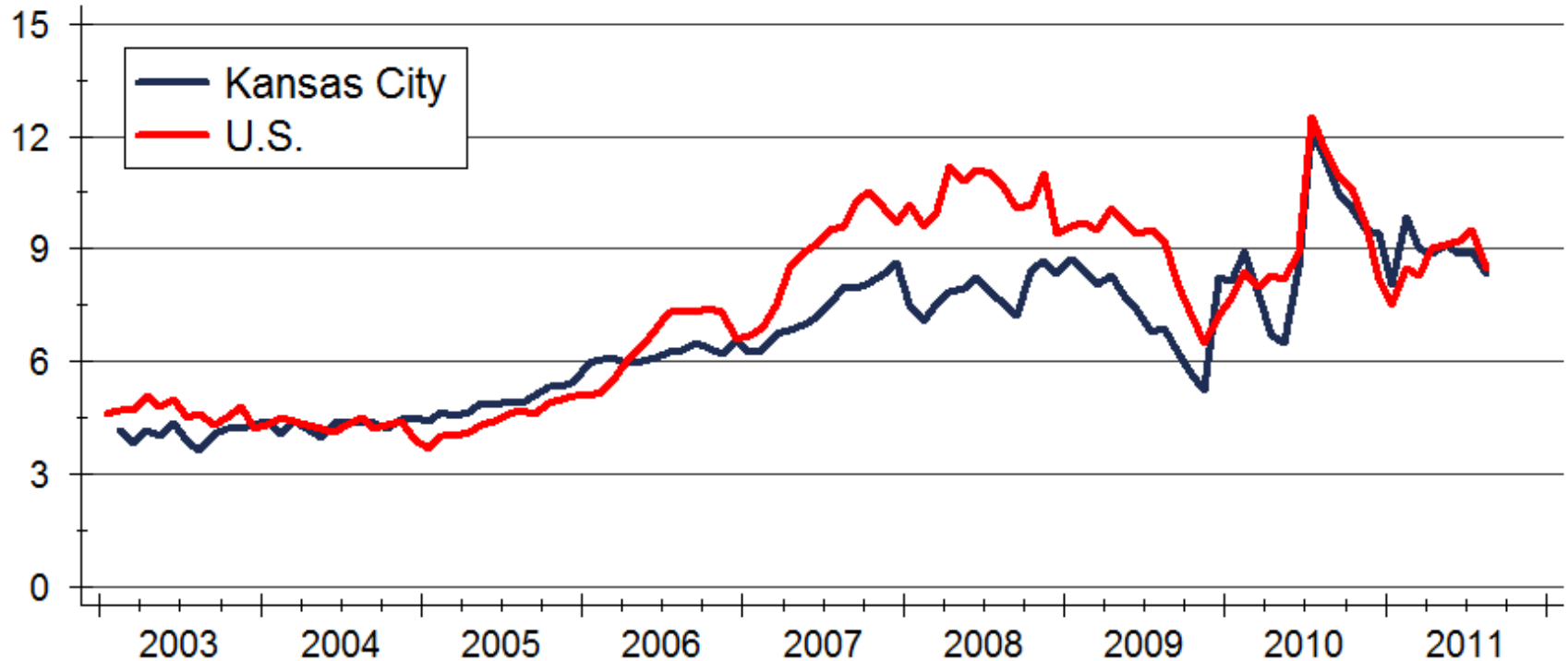
Source: U.S. Bureau of the Census
Data are seasonally adjusted annual rates

Home Price Appreciation



Existing Home Inventories

Months' Supply



Sources: NAR and Kansas City Regional Association of REALTORS®

Note: Data are seasonally adjusted

How Do Distressed Sales Affect Home Price Indices?

Suppose you want to know how much your home's value has changed and there have been two recent sales in your neighborhood

Comparable 1: Distressed sale

Home value has fallen by 20%

Comparable 2: Arm's length sale

Home value has been flat

How Do Distressed Sales Affect Home Price Indices?

Most price indices would count these sales equally, suggesting your home's value has fallen by 10%

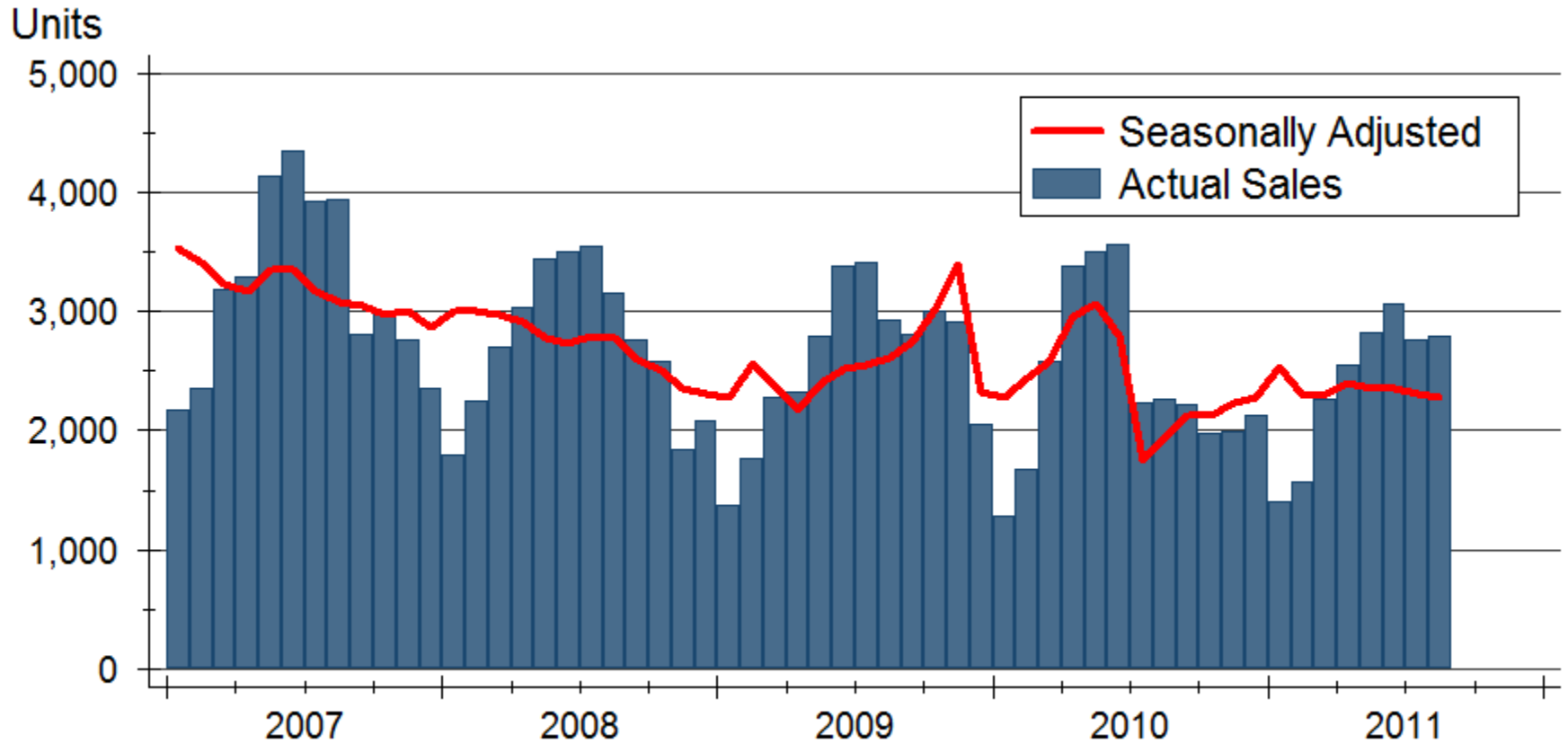
In fact, if your sale would be an arm's length transaction, your home's value has probably not fallen at all

Until foreclosures work their way through the system, home price indices will be a biased measure of home price appreciation

Kansas City Forecast

| | 2009 Actual | 2010 Actual | 2011 Forecast | 2012 Forecast |
|-------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Total Home Sales | 25,768 units -4.5% | 22,948 units -10.9% | 23,060 units +0.5% | 24,610 units +6.7% |
| Building Permits | 1,909 units -31.0% | 2,129 units +11.5% | 2,465 units +15.8% | 2,800 units +13.6% |
| Home Price Appreciation | -1.8% | -0.5% | -5.5% | -1.6% |

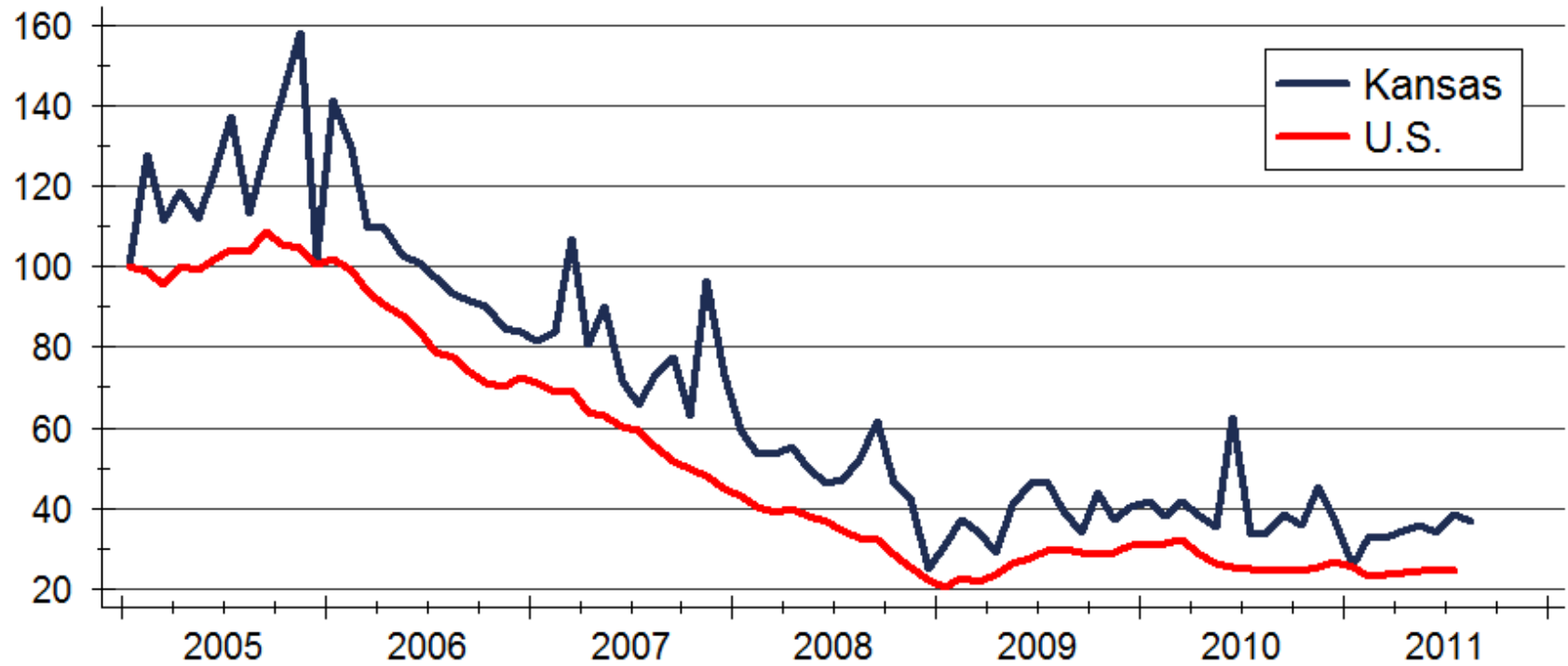
Kansas Home Sales



Source: Participating Kansas REALTOR® MLS systems

New Home Construction

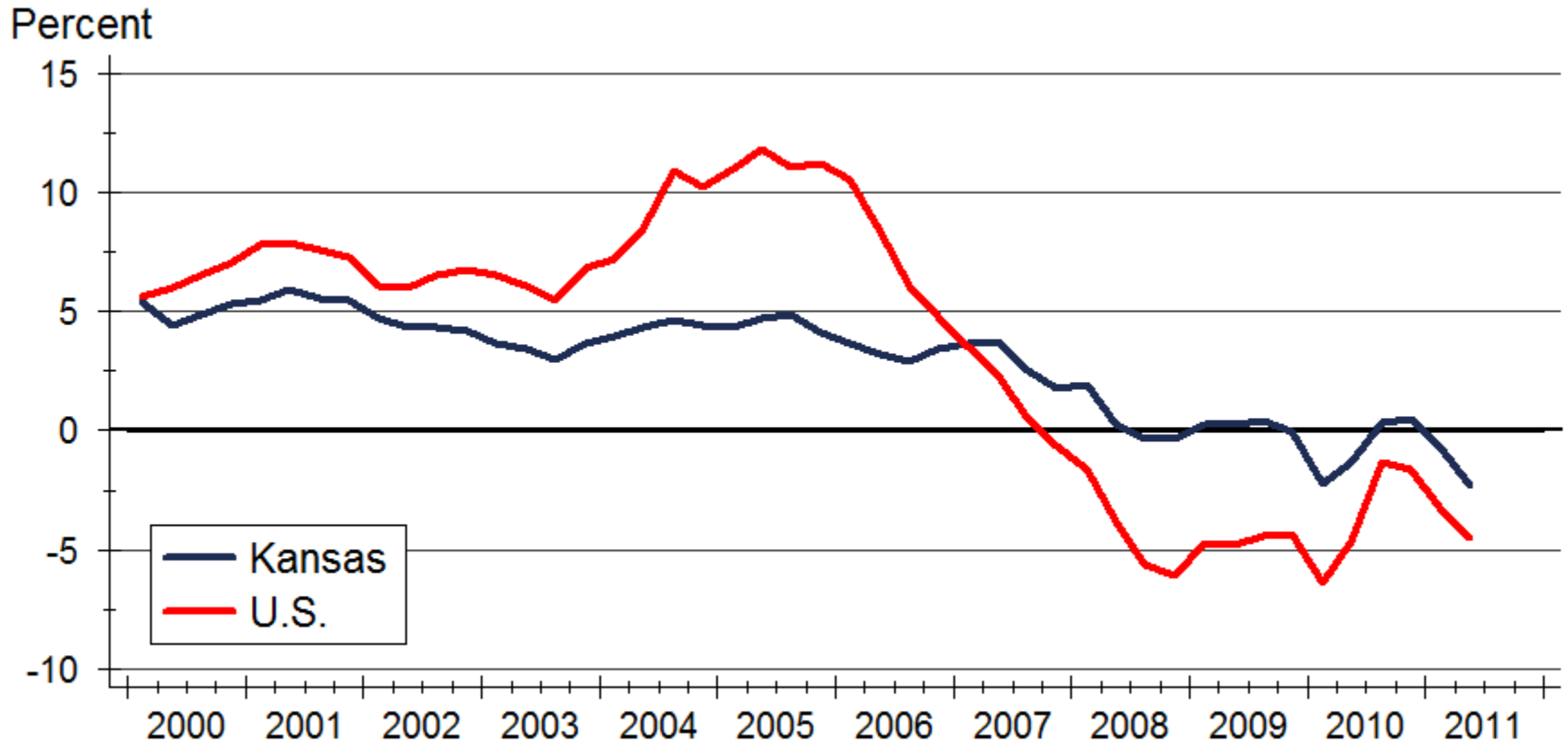
Index: 2005m1 = 100



Source: U.S. Bureau of the Census

Data are seasonally adjusted annual rates

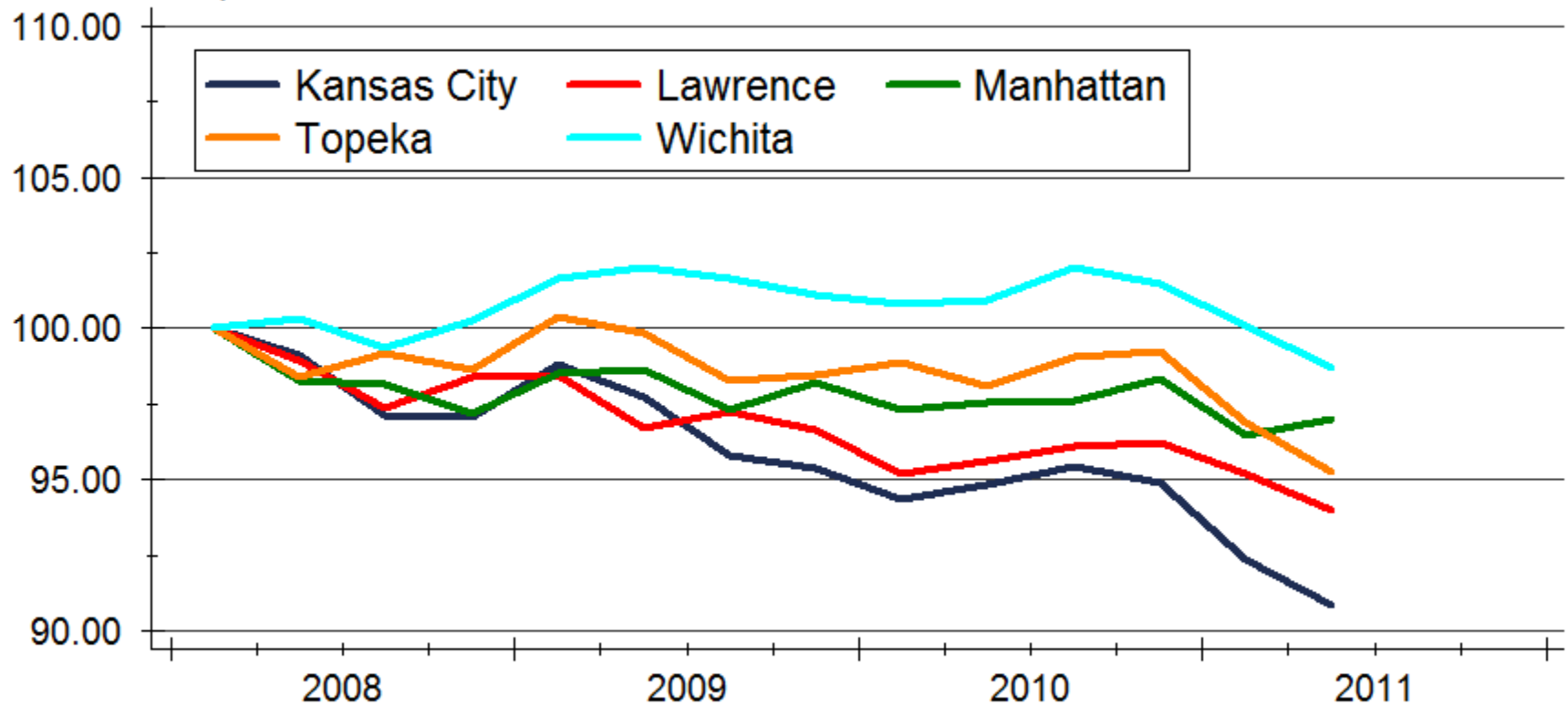
Home Price Appreciation



Source: Federal Housing Finance Agency (FHFA)

Home Price Appreciation across Kansas

Index: 2008q1 = 100



Source: Federal Housing Finance Agency (FHFA)

Kansas Forecast

| | 2009 Actual | 2010 Actual | 2011 Forecast | 2012 Forecast |
|-------------------------|------------------------|------------------------|--------------------------|--------------------------|
| Total Home Sales | 31,023 units -5.1% | 28,771 units -7.3% | 28,250 units -1.8% | 30,740 units +8.8% |
| Building Permits | 3,660 units -21.9% | 3,802 units +3.9% | 3,370 units -11.4% | 4,060 units +20.5% |
| Home Price Appreciation | -0.1% | +0.5% | -3.6% | -1.0% |

Kansas Housing Markets Forecast

This year we forecasted housing market activity for every major market in the state:

Kansas City, Lawrence, Manhattan and Topeka in addition to Wichita and the state as a whole

Analysis of these markets can be found at the end of this presentation on the Center for Real Estate's website at

www.wichita.edu/realestate

Thanks once again to...



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